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24

20 May 1985

MEMORANDUM

SUBJECT: Mid-Term Electoral Prospects

Summary

We believe Mexican President de la Madrid

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has become increasingly unable to control the strong differences that have emerged among his Cabinet ministers over the direction of economic policy and less able than previous presidents to control maneuvering to succeed him.

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De la Madrid's leadership will be put to the test in July, when Mexico will hold elections for all seats in the Chamber of Deputies, seven governorships, and numerous local offices. The elections are particularly important because they will come at a time when the ruling party's prestige and popularity appear

low by historical standards. The outcome of the contests could further weaken the Institutional Revolutionary Party (PRI) if it sustains even a few major defeats or is perceived to have won through blatant cheating. The races will also indicate the extent to which de la Madrid is willing to democratize the political system, and they will test the appeal of the opposition. [REDACTED]

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The center-right National Action Party (PAN) currently poses the greatest political challenge to the PRI, but the PAN's strength is concentrated primarily in the northern states. Elsewhere in the country, the PAN is small and presents little threat to the ruling party. Mexico's weak and divided leftist parties will provide only token competition for the PRI, in our judgment. [REDACTED]

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Opposition parties will seek to capitalize on dissatisfaction with the PRI's performance and are likely to emphasize the economy. Although de la Madrid's austerity policies have brought Mexico back from the brink of financial disaster, they have involved high social costs. Budget cuts have reduced subsidies for food and other consumer goods and, we estimate, the real purchasing power of most Mexicans has fallen by a third since de la Madrid assumed office. [REDACTED]

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[REDACTED]

In recognition of its vulnerability on the economy, the government shifted to more stimulative policies in mid-1984 to

create more jobs and slow the decline in living standards. These actions, however, have accelerated inflation and caused Mexico to miss some key IMF targets. A second factor adding to public disenchantment has been the failure of de la Madrid's much publicized "moral renovation" campaign. Recent revelations of high-level police involvement in narcotics trafficking are likely to erode the government's credibility further.

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The outcome of the elections is most likely to weaken de la Madrid's public standing and political stature in the government, in our judgment. We can envision several scenarios.

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- The greatest likelihood is that the PRI will retain control of the vast majority of elective offices, including all governorships, with minimal violence.
- We believe there is a somewhat lesser probability the PRI will win most contests, including all governorships, but that such victories will be marred by serious disorders, including considerable loss of life and major property damage.
- There is only a remote possibility that the PRI will acknowledge a PAN victory in any state. We believe PAN stands the best chance of capturing the governorship in Sonora. [REDACTED]

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[REDACTED]

with a possible violent backlash in the north and overspending on the races, will indirectly contribute to de la Madrid's troubles and the longer term erosion of the ruling party's still considerable base of support. Even if the de la Madrid administration emerges from the 1985 elections relatively unscathed, the PRI will face mounting difficulties through the end of the President's term in 1988 and beyond, in our judgment. In 1986, the PRI is scheduled to face fourteen gubernatorial contests, and the administration's economic policies are likely to be an even more contentious issue. We believe de la Madrid is unlikely to provide either the appropriate policies or the firm leadership that would be

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required to bring about strong economic recovery. In fact, we estimate that the current economic growth rate of 3.5-4.0 percent will prove unsustainable and that economic growth probably will average closer to 1-2 percent in the closing year of the administration. In addition, we judge that de la Madrid lacks the political backing within the PRI that would be needed to liberalize the political system substantially or to root out much of the corruption that has become endemic in Mexico. The de la Madrid administration's shortcomings are likely to become even more apparent during the remaining three years of his term and result in growing public disillusionment. [REDACTED]

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Any repercussions of the elections for US-Mexican relations probably will be largely indirect and reflect the deterioration in Mexican economic performance brought about by overspending on the contests and diminished popular confidence in de la Madrid's ability to govern. De la Madrid almost certainly knows that he will need US help on trade and financial matters, particularly if another financial crisis ensues. Moreover, the importance he attaches to the bilateral relationship, together with his dependence to a large degree on Washington's goodwill, should make de la Madrid receptive to greater cooperation in areas of key concern to this country, such as narcotics control, immigration, and possibly Central America. [REDACTED]

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Nonetheless, should the PAN capture a governorship, the de la Madrid administration would grow more wary of alleged links between the opposition and US groups, possibly introducing greater discord in bilateral relations. If major violence in the north accompanies the elections, tensions could spill over the border, as they did last year after local election disputes prompted PAN supporters to seek refuge across the border and resurrected charges of US backing of the PAN. The damage to bilateral relations would be commensurate with the level and duration of violence. At the extreme, it could disrupt commercial and financial relations and spur further illegal migration to the United States.

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Text

Mexico's Institutional Revolutionary Party (PRI) has enjoyed a virtual monopoly on power since its inception in the late 1920s. It has never lost the presidency or a governorship, and it has dominated most lesser offices. The PRI has maintained its hold on power by integrating key groups into the political process, centralizing political and economic power, identifying itself with the Mexican Revolution, coopting or coercing opposition groups [REDACTED]

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[REDACTED] Also contributing to the ruling party's longevity have been the economic gains Mexico has achieved under its tutelage. From the 1930s through 1981, the country experienced a fairly steady, diversified growth averaging 6-7 percent annually. Although the middle and upper classes benefited disproportionately, other groups also improved their lot. [REDACTED]

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This impressive record, perhaps unparalleled in Latin American experience, was suddenly challenged in 1982 when Mexico confronted its gravest financial crisis in a half century. Several years of rapid growth based on rising oil export earnings and massive foreign borrowing came to a sudden halt as international oil prices fell, capital flight soared, and creditors withdrew. Newly elected President Miguel de la Madrid adopted a stabilization program aimed at lowering the country's triple-digit inflation rate, reducing the burgeoning

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public sector deficit, and restoring international confidence in the government's policies. At the same time, he won popular favor with his pledges to foster "moral renovation", a euphemism for curtailing official corruption, and to respect electoral outcomes. As a result of such policies, most international observers awarded de la Madrid high marks for his performance, crediting him with cooling the overheated economy, turning the external payment accounts around, and preventing a social explosion during a prolonged period of austerity. In our view, he was able to demonstrate strong leadership during his first months in office in part because of the prevailing consensus among virtually all groups in Mexico that past policies had failed and that new ones were needed to solve the country's difficulties. [redacted]

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The President's political honeymoon, however, seems to be ending, and de la Madrid appears to be wavering between several conflicting policy goals. The Mexican President's handling of a number of issues--the economy, domestic politics, and the moral renovation drive--have called into question the strength of his leadership. In each case, de la Madrid has backed down on key aspects of his programs. His lack of commitment to the initiatives outlined at the beginning of his term has led to public disillusionment, according to US Embassy reporting. De la Madrid announced, for example, that his administration would abide by the decisions of voters in elections, [redacted]

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[REDACTED]

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Similarly, he has repeatedly

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called for moral renewal, but he has sought to avoid a thorough housecleaning of the sort that would implicate senior government officials. [REDACTED]

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These actions, and the growing popular dissatisfaction with his leadership, lead us to conclude that de la Madrid is relatively weaker and less in control of political developments than were any of his recent predecessors at comparable points in their terms. This weakness is exemplified by his apparent inability to control political infighting among his advisers. According to US Embassy reporting, strong differences have emerged among key Cabinet officers over the direction of the country's economic policy. Budget Minister Salinas and Foreign Minister Sepulveda reportedly have pursued expansionary economic policies over the objections of Finance Minister Silva Herzog and Bank of Mexico Director Mancera. Meanwhile, a number of de la Madrid's subordinates, including Salinas, Silva Herzog, Sepulveda, and Government Minister Bartlett, are visibly maneuvering to succeed him. [REDACTED]

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De la Madrid has other political liabilities as well. He did not hold elective office before assuming the presidency and with few exceptions has selected fellow technocrats as his closest advisors and Cabinet members. As a result, his administration is relatively isolated from traditional

political constituencies inside and outside of the ruling party, in our judgment. Moreover, de la Madrid is not a gifted speaker, according to US Embassy observers, and he lacks the facility his immediate predecessors enjoyed to convince members of the public and party leaders to support his initiatives. [REDACTED]

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Significance of the 1985 Races

A major test of de la Madrid's political abilities will occur in July, when Mexico will hold elections for all seats in the national Chamber of Deputies, seven governorships, and numerous local offices. The outcome of the balloting, which will take place close to the midpoint in de la Madrid's term, could have a major impact on de la Madrid's effectiveness for the remainder of his term. According to a Mexican Government official who spoke with US Embassy officers, the President is concerned about his popularity and wants the PRI to do at least as well in the coming elections as it has in past midterm races. [REDACTED]

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The results also are likely to affect de la Madrid's ability to renew his campaign against corruption and to foster greater political pluralism. The PRI could tarnish its image, for example, and further discredit the President's reform efforts if it resorts to obvious fraud to win key contests. On the other hand, a failure to win a decisive victory could

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reduce the President's leverage with powerful vested interests opposing political reform. [REDACTED]

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The Opposition Challenge

Opposition parties are viewing the elections as a major opportunity. The center-right National Action Party (PAN), which officially received about 18 percent of the vote in the 1982 elections for federal deputy and senator, currently poses the greatest potential challenge to the PRI. That challenge will be concentrated primarily in the northern states, however, where the PAN increasingly has come to express the aspirations of the urban middle class and business interests. Elsewhere, the PAN generally remains small, ineffective, and presents little threat to the ruling party. [REDACTED]

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The PAN's strength in the north was demonstrated in 1983 when the party swept to victory in a number of key municipal contests. In July of that year, the party won mayoral races in Durango and Chihuahua, both capitals of northern states, and 10 other cities in the two states. The year before it had captured Hermosillo, the capital of Sonora. The opposition victories in Durango and Chihuahua lent credibility to de la Madrid's pledge before assuming office to conduct honest elections, but they also apparently caused significant concern among top officials in the ruling party. [REDACTED]

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As a result, we believe, de la Madrid subsequently resolved not to allow such losses to be repeated. PRI

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victories later in 1983 in the states of Baja California and Puebla were accompanied by widespread fraud, according to US Embassy

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Leftist parties, which captured about 5 percent of the congressional vote in 1982, show no sign of mounting a threat to the electoral dominance of the PRI. The largest and most active, the Unified Socialist Party of Mexico (PSUM), was formed in 1981 when the now defunct Mexican Communist Party joined with four smaller groups in an attempt to pool resources and votes. The PSUM draws its greatest support from Mexicans in the capital and areas of southern and central Mexico, but personality, ideological, and tactical conflicts have weakened the coalition. Earlier this year, about 20 percent of PSUM's membership bolted, announcing they would form a new hardline Marxist party that would look to Moscow and Havana for

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support. So far, there is no evidence that Moscow and Havana are involved with the splinter group. More generally, we expect the USSR, Cuba, and other Communist states to have little, if any, influence on the outcome of the elections. [redacted]

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[redacted]

Mexico's leaders, for their part, appear less concerned about opposition from the left than the right, and we see little prospect leftist parties will command significantly greater support in the next several years. Nor do we believe there is much chance they will withdraw from the electoral system, since they receive government subsidies under the country's election laws. In our judgment, only the minuscule Trotskyist Revolutionary Workers Party, whose leaders have called for a "political revolution", is likely to consider violence to further its aims. [redacted]

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Election Issues

The Economy

Party loyalty has long been the principal factor influencing voter behavior in Mexico, but other concerns also will affect the balloting in July. Economic issues are likely to be a major target of opposition parties, and they will attempt to exploit dissatisfaction with inflation, unemployment, and declining living standards. Although de la Madrid's austerity policies have brought Mexico back from the brink of financial disaster, they have involved high social

costs. Budget cuts have reduced subsidies for food and other basic consumer goods and, we estimate, the real purchasing power of most Mexicans has fallen by one third since de la Madrid assumed office. Embassy reports state that government policies also have led to greater shortages of consumer goods, including meat, milk, eggs, natural gas, and gasoline, than at any time in the past decade. [REDACTED]

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Stalled Anticorruption Drive

Adding to public dissatisfaction has been de la Madrid's much publicized "moral renovation" campaign, which he has made a cornerstone of his administration. According to the US Embassy, the effort was initially greeted with broad popular approval but is now widely perceived as having failed to reduce the level of corruption significantly. High public expectations are giving way to resentment the government has not done more. Recent revelations of high-level police involvement in narcotics trafficking are likely further to detract from the administration's public credibility. [REDACTED]

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[REDACTED]

Some members of the public have become disillusioned because the government with few exceptions has not filed charges against senior officials of the past or the present administration. The most prominent person now behind bars on corruption charges is Jorge Diaz Serrano, the former head of the state oil company, but he has not been brought to trial

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and, in our judgment, probably will not be. The government apparently fears that Diaz Serrano, like former Mexico City Police Chief Arturo Durazo, who is now in Los Angeles awaiting extradition, could implicate other members of the present administration. More generally, we believe public cynicism about the de la Madrid administration's commitment to halting corruption will continue to grow. [redacted]

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Other Issues

Local issues and candidate appeal also will influence voters' choices. For this reason, as well as the PAN's strong base of support in the north, the governor's race in Sonora is being hotly contested, according to press [redacted]

Foreign policy, on the other hand, is likely to have only a minor impact on the campaign. De la Madrid almost certainly will portray his administration as a defender of peace in Central America, a champion of world disarmament, and a leader among Third World governments, but at least one opinion poll has indicated that international issues are not of great concern to the electorate. [redacted]

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Election Tactics

We believe the PRI is using a broad strategy consisting of legal and extralegal tactics in attempting to make a strong showing in the elections. It is seeking to win by respectable means where possible, [redacted]

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[redacted] The ruling party is endeavoring to use its superior

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organizational and financial resources, as well as its control over the media, to good advantage. In addition, the government introduced more expansionary spending policies in mid-1984 to soften the effects of austerity. The administration is lavishing public works projects on districts where it expects close races, for example, and it is taking account of the elections in timing economic policy announcements. We expect the de la Madrid administration will boost the minimum wage substantially before the elections, and it probably will postpone exchange rate adjustments until after the 7 July election date. At the same time, the PRI will remind voters that it is the party that best embodies the ideals of the Mexican Revolution and that it is responsible for the considerable economic progress the country has realized under its leadership. [REDACTED]

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Such tactics will enable the PRI to win most races, but fraud will provide the margin of victory in a number of contests. US Embassy reports state it is virtually certain that the PRI will steal some close elections, particularly in the north, where the potential for opposition inroads is greatest. Moreover, appeals by opposition parties to reverse election outcomes are unlikely to be successful because the PRI dominates the institutions in the appeal mechanism, such as the federal and state election commissions and all state legislatures. [REDACTED]

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The PAN, for its part, will concentrate its more limited resources on selected races, particularly in the northern states. The party has placed a special emphasis on finding attractive, popular candidates, most of whom are drawn from business and professional circles. According to US diplomatic reporting, the PAN also is attempting to present an image of clean politics in order to highlight the corruption issue. PAN leaders believe that absenteeism is a major reason why their party has not done better in the past and that increased popular involvement in the elections will make it more difficult for the ruling party to steal the contests. The PAN also will strive to broaden its political base and to shed its reputation for being an elitist party. [REDACTED]

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Election Prospects

In view of the ruling party's considerable resources and its willingness to use extra legal measures where necessary, we believe the PRI will easily win most of this year's races and remain the dominant political force in the foreseeable future. No opposition party has officially won a governorship in the past 56 years, and we are confident--we view it as a 90 percent probability--this record will not be broken in the coming elections. US Embassy reporting suggests PRI leaders believe the loss of even one governorship would be taken as a sign of weakness and that it could contribute to the party's demise. [REDACTED]

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[REDACTED]

The opposition also is unlikely to improve its position greatly in the Chamber of Deputies. At present, parties other than the PRI control 101 of the 400 deputy seats, of which 100 by law are reserved for the opposition. We expect the ruling party's opponents to pick up fewer than a half dozen seats in the chamber.* The PRI is likely to experience its toughest challenge in a number of municipal elections, particularly in the north. Local races will be held in 14 states, including Sonora, where the PAN stands at least an even chance of retaining control of Hermosillo, the capital, in our judgment. We believe the PRI will respect opposition victories in federal and state deputy races and local contests that rival parties have won by wide margins. It will allow such victories in order to maintain the appearance of democracy, counter allegations of vote rigging, and give other parties limited incentives to work within the system. [REDACTED]

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Nonetheless, opposition parties are likely to charge the PRI with a variety of electoral irregularities, even before the official results are announced. If large numbers of voters do not consider the results valid, they almost certainly will organize demonstrations and occupy town halls. Some may engage

*No seats in the 64-member Senate are at stake in this election. Senators are elected concurrently with the President, and all currently belong to the PRI. Neither legislative body has much influence on public policy; each essentially is a rubber stamp for the President's legislative agenda. [REDACTED]

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in short-lived hunger strikes, but such activities, in our judgment, are unlikely to reverse election outcomes. [redacted]

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PAN supporters in the north, possibly including unemployed youths, are the most likely to engage in violent outbursts protesting government electoral fraud. PAN leader Pablo Emilio Madero stated publicly last October there almost certainly will be violence in Sonora if fair elections are not held. Nevertheless, we anticipate civil disturbances associated with the elections will be scattered and largely spontaneous. There is only a remote possibility, in our judgment, that the unrest in the north or elsewhere will severely tax the resources of local security forces and the Army. Moreover, according to Attache reporting, the military remains staunchly loyal to the government, and is likely to use whatever degree of force is necessary to restore order. [redacted]

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Election Repercussions

Even though the PRI is almost certain to win decisively, the electoral process is likely to weaken de la Madrid's political position in our judgment. [redacted]

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[redacted] a possible violent backlash in the north, will indirectly contribute to de la Madrid's troubles and the longer-term erosion of the ruling party's still considerable base of support. We can envision three principal scenarios. [redacted]

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PRI Election Sweep and Minimal Violence

In our estimation, the greatest likelihood is that the PRI will retain control of the vast majority of elective offices, including all governorships, [REDACTED]

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[REDACTED] major protests, probably involving limited violence, in the north and possibly elsewhere. Although we do not believe that the outbursts will get out of hand or be widespread, the public perception that the PRI employed fraud would increase cynicism about the honesty of the electoral process. At the same time, the frustration of PAN and other opposition party militants would heighten the potential for more serious violence in future races. [REDACTED]

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Nevertheless, we believe such an outcome would cause de la Madrid to see the election results as a renewed mandate for his administration. In general, we would expect him to pursue his consensual approach to governing. This approach however, could cause difficulties in short order. His unwillingness to force resolution of disputes among advisors, for example, or strongly to back his initiatives would indirectly encourage infighting among PRI and government officials. We also anticipate de la Madrid would endorse contradictory and shifting policies as he attempted to deal with economic difficulties. During the remainder of de la Madrid's term, we would expect slow progress

on some fronts, such as moral renovation, and stagnation on others, including political liberalization and party reform.

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PRI Election Sweep and Major Violence

An outcome that we see as less likely is a decisive victory by the PRI in most contests, including all governorships, followed by serious disorders, including major property damage and considerable loss of life.

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The PAN's national and state leaders probably will not instigate such violence, but major disturbances could grow out of milder forms of party-sanctioned protest and government responses. Serious protracted rioting by PAN supporters almost certainly would give impetus to efforts of some PRI leaders to deny the PAN legal status and keep it off the ballot in future elections.

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As a consequence of major disturbances, we would expect de la Madrid not only to retrench on his commitment to promote greater political pluralism but also to adopt somewhat more repressive policies in an effort to maintain order. This could result in a greater number of arbitrary arrests, firmer handling of labor disputes, and increased media censorship. It

might also lead Mexico's rulers to adopt more stridently nationalistic policies as a means of promoting unity and to cooperate less closely with the United States on issues of mutual concern. Serious violence would add to de la Madrid's economic problems by spurring capital flight and discouraging domestic and foreign investment. [REDACTED]

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The adoption of hardline policies would, in turn, increase the government's dependence on the military and security forces. Perhaps with this in mind, de la Madrid already has been attentive to the needs of the armed forces. He has granted the military pay raises in excess of those for civilians. He also has allowed the armed forces to acquire new and more sophisticated equipment, including a squadron of supersonic aircraft for the Air Force, modern patrol vessels for the Navy, and new armored vehicles for the Army. In addition, he has named military officers to a number of posts traditionally held by civilians, such as state governorships, sub-Cabinet positions, and seats in the Chamber of Deputies.

[REDACTED]

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PRI Loss of a Governorship

There is only a remote possibility, we believe, that the PRI will permit a PAN gubernatorial victory. Should such a victory occur, however, it would most likely be in Sonora. For the government to recognize such a victory, several conditions probably would have to be met:

- An overwhelming and obvious PAN victory in the state.
- The strong likelihood of widespread, serious violence if the wishes of voters were ignored.
- Extensive and potentially embarrassing international media coverage of the elections.
- Consensus within the top echelons of the PRI that conceding the contest would be less damaging to the party's interests than resorting to fraud.

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If the PRI surrendered a governorship, it most likely would be as a result of negotiations following the elections rather than immediate recognition of an opposition victory. The PRI would first attempt to avoid giving up the governorship by offering the opposition lesser offices, such as contested mayoralties or disputed seats in the Chamber of Deputies. If the PRI ultimately conceded a statehouse, it would portray the loss as evidence of de la Madrid's commitment to political reform.

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Nonetheless, for the PRI to acknowledge defeat in a gubernatorial race would be a major blow, since observers inside and outside the party would view it as a precedent for losses of additional statehouses in the future. In response to such a setback, we would expect the de la Madrid administration to withhold some national funds from the opposition-controlled state government in an attempt to undercut its leadership. The

PRI already has employed this tactic with mixed success in dealing with PAN-administered municipalities. Nevertheless, the advent of an opposition-dominated state administration would add to the stature of the winning opposition party, dramatically symbolizing that the long-dominant PRI no longer was invincible. Such a development also would make the de la Madrid administration even more wary of alleged links between the PAN and groups in the United States, possibly introducing new strains in bilateral relations. More generally, the loss of a state to the opposition would tend to underscore the weakness of de la Madrid's leadership and make it more difficult for him to maintain support for his policies. [REDACTED]

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Implications for de la Madrid's Rule

Even if the de la Madrid administration emerges from the 1985 elections relatively unscathed, the PRI will face mounting difficulties through the end of the President's term in 1988 and beyond, in our judgment. We believe de la Madrid is unlikely to provide the firm leadership or appropriate policies that would be required to bring about strong economic recovery. In fact, our economic projections suggest that the de la Madrid administration may face the prospect of growth rates of just 1-2 percent in the closing years of the term. In addition, we judge that he lacks the political will that would be needed to liberalize the political system substantially or

to root out much of the corruption that has become endemic in Mexico. Moreover, the de la Madrid administration's shortcomings are likely to become even more apparent during the remaining three years of his term. The public's disillusionment with government policies almost certainly will grow. [REDACTED]

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De la Madrid's difficulties probably will be most acute on the economic front. Expansionary economic policies begun in mid-1984 are undercutting Mexico's agreement with the IMF for 1985. The government's spending spree is keeping the public sector deficit and inflation near last year's levels, which are far above targets set with the Fund. Moreover, external accounts are deteriorating because of the overvalued exchange rate and the soft world oil market. These trends strongly suggest Mexico will be unable to meet most of its IMF targets this year. This will make it more difficult for the de la Madrid administration to secure the new loans from foreign creditors it will need in 1986 and to finance public works projects in the 14 states scheduled to hold governor's races next year. [REDACTED]

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Mexico City probably will find it difficult to revert to more austere economic policies after the July 1985 elections because of de la Madrid's lack of firm leadership and the belief of the President's advisors that most Mexicans will not quietly accept further reductions in their standard of

living. At the same time, the influence of Finance Minister Silva Herzog and other Cabinet ministers who in the past have advocated adherence to Mexico's economic adjustment program has been declining, while that of Budget Minister Salinas, Foreign Minister Sepulveda, and others favoring greater government spending, has been increasing, according to the US Embassy. []

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We believe that de la Madrid and other authorities lack the political support within the ruling party necessary to make needed structural changes that would improve Mexico's economic prospects over the medium and longer term. These include steps to reduce the public sector's role in the economy, make domestic industry more efficient, and increase international competitiveness. As a result, we expect Mexico to lurch toward a new economic crisis until a consensus reemerges that stronger correctives are required to right the economy. []

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Moreover, variables beyond Mexico's control could depress the economy. A \$2 per barrel reduction in world oil prices annually during the remainder of de la Madrid's term would cause economic activity to drop 2-4 percent a year between 1986 and 1988. Rising international interest rates or slower growth in the US economy would also adversely affect Mexico's external accounts. []

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As Mexico's economic difficulties become more acute, as we expect they will, Mexicans on both the right and the left on

the political spectrum are likely to become more vocal in their criticism of the government. Antigovernment protests almost certainly will increase in number and seriousness, both in urban areas and in the countryside. Nonetheless, we do not anticipate they will reach regime-threatening proportions during the remainder of de la Madrid's term. [REDACTED]

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If, as is likely, de la Madrid's difficulties in leading his Cabinet and the PRI become more pronounced during the remaining three years of his term, considerable controversy will surround his choice of a successor. We believe labor and leftist interests within the ruling party will oppose the selection of another technocrat. Under such circumstances, de la Madrid could be compelled to designate a candidate more broadly acceptable within the PRI or to adopt somewhat more populist policies in the waning days of his administration in an effort to placate such key constituencies. [REDACTED]

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Implications for the US

Under the most likely scenario, we do not expect the midterm elections to have major repercussions for US-Mexican relations in the short term. In an effort to arouse nationalist sentiment and bolster its domestic standing, the PRI could make greater use of anti-Yankee rhetoric and more directly criticize US policy on Central America. PRI leaders earlier this year sought to discredit the PAN by branding it a tool of US interests. The same officials have asserted that

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members of the US mission in Mexico City are interfering in the country's political process through their public statements and occasional meetings with opposition leaders. Yet allegations of US ties to the PAN now appear to have subsided, and we do not expect alleged US links to the PAN to be a major campaign issue. [REDACTED]

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Following the elections, we anticipate that de la Madrid will generally eschew tactics that would aggravate relations with the United States. Serious strains have emerged between the two countries since the murder of a US Drug Enforcement Administration official earlier this year, and we believe de la Madrid desires to improve relations and keep them on an even keel. He almost certainly knows he needs US help on trade, financial, and other matters. Moreover, the importance he attaches to the bilateral relationship, together with his dependence to a large extent on Washington's good will, should make de la Madrid receptive to greater cooperation in areas of key concern to this country, such as narcotics control, immigration, and possibly Central America. [REDACTED]

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Major election-related disturbances in northern Mexico however, would tend to aggravate existing strains in US-Mexican relations and to introduce new ones. PAN supporters protesting electoral irregularities could riot and then seek refuge in the United States to avoid government reprisals, much as occurred late last year after local elections in Piedras Negras, a

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border town across from Eagle Pass, Texas. Under such circumstances, Mexican authorities might charge their US counterparts with harboring fugitives, and PRI supporters almost certainly would resurrect allegations of US favoritism toward the PAN. Tensions would rise even higher if PAN leaders called upon the large Hispanic community in the United States to support their cause. [REDACTED]

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The adverse repercussions for bilateral relations would be even greater if the violence were of such a scale or duration that the authorities had difficulty containing it. Principal transportation arteries in the north, including roads and bridges linking Mexico to the United States, almost certainly would be blockaded, if only temporarily until security forces could restore order. Meanwhile, commerce across the border would be disrupted and communities on each side, whose economies in recent years have become increasingly intertwined, could lose millions of dollars in trade. In such an event, Mexican leaders almost certainly would attempt to use the United States as a scapegoat for their problems. In the aftermath of such incidents, Mexico's international creditors would be less willing to extend loans or trade credits to the government or private business. A sharp reduction in credit available for an extended period would tend to depress economic activity, limit Mexico's ability to import US goods, and spur illegal migration to the United States from Mexico. [REDACTED]

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Moreover, the deterioration in Mexico's economic performance associated with all of the election scenarios would adversely affect bilateral trade and financial relations, cut returns on US investments in Mexico, and spur illegal migration. Under these circumstances, Mexico City probably would approach Washington requesting special treatment on trade or financial matters. If another financial crisis arose, we expect Mexico City would seek emergency aid from the US government.

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SUBJECT: Mid-Term Electoral Prospects

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ALA/MC/MX/ (20 May 1985)

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